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REBOUL, MACMURRAY, HEWITT, MAYNARD & KRISTOL

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RECORDATION NO 16686 FILED 1425

DEC 28 1989 -11 25 AM

INTERSTATE COMMERCE COMMISSION

December 28, 1989

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9-362A052

Secretary
Interstate Commerce Commission
Washington, D.C. 20423

Dear Secretary:

As attorney-in-fact for Sun Life Assurance Company of Canada (U.S.), I enclose five original counterparts of the document described below to be recorded pursuant to section 11303 of title 49 of the United States Code.

This document is a chattel mortgage and security agreement dated as of December 1, 1989, a primary document.

The names and address of the parties to the document are as follows:

Debtor and mortagor:
The Monongahela Railway Company
53 Market Street
Union Station Building
Brownsville, Pennsylvania 15417

Secured party and mortgagee:
Sun Life Assurance Company of Canada (U.S.)
Sun Life Executive Park
Wellesley Hills, Massachusetts 02181

The equipment covered by the document consists of 11 diesel-electric locomotives, General Electric model Super 7 B23, bearing the road numbers of the Monongahela Railway Company 2300 through 2310, and marked with the legend "Ownership Subject to a Security Agreement Filed with the Interstate Commerce Commission."

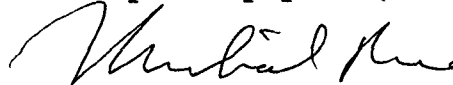
Charles P. Shute
Edward A. McDonald

A fee of \$15 is enclosed. Please return all counterparts not needed by the Commission for recordation, stamped to show recordation, to Reboul, MacMurray, Hewitt, Maynard & Kristol, 1111 19th Street N.W., Washington, D.C. 20036.

A short summary of the document to appear in the index follows:

Chattel mortgage and security agreement dated as of December 1, 1989, between the Monongahela Railway Company, debtor and mortgagor, and Sun Life Assurance Company of Canada (U.S.), secured party and mortgagee, covering 11 diesel-electric locomotives, General Electric model Super 7 B23, bearing the road numbers of the Monongahela Railway Company 2300 through 2310.

Very truly yours,

A handwritten signature in cursive script, appearing to read "Michael Rice".

Michael Rice

Interstate Commerce Commission
Washington, D.C. 20423

12/28/89

OFFICE OF THE SECRETARY

Michael Rice
Reboul, MacMurray, Hewitt, Maynard & Kristol
45 Rockefeller Plaza
New York N.Y. 10111

Dear Sir:

The enclosed document(s) was recorded pursuant to the provisions of Section 11303 of the Interstate Commerce Act, 49 U.S.C. 11303, on 12/28/89 at 11:25am and assigned recordation number(s). 16686

Sincerely yours,



Noreta R. McGee
Secretary

Enclosure(s)

10686

RECORDATION #3 _____ FILED 1425

DEC 28 1989 -11 25 AM

INTERSTATE COMMERCE COMMISSION

CHATTEL MORTGAGE

AND

SECURITY AGREEMENT

Dated as of December 1, 1989

between

THE MONONGAHELA RAILWAY COMPANY

and

SUN LIFE ASSURANCE COMPANY OF CANADA (U.S.)

11 General Electric Model Super 7 B23 locomotives

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*This is
the only
copy NOTARIZED
by both parties*

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CHATTEL MORTGAGE AND SECURITY AGREEMENT dated as of December 1, 1989, between THE MONONGAHELA RAILWAY COMPANY, a Pennsylvania and West Virginia corporation (hereinafter called the Railroad) and SUN LIFE ASSURANCE COMPANY OF CANADA (U.S.), a Delaware corporation (hereinafter together with its successors and assigns hereunder being called the Secured Party).

WHEREAS the Railroad is purchasing the railroad equipment described in Schedule A hereto (such equipment so described as shall be subject to this agreement from time to time being hereinafter called the Equipment) from General Electric Company;

WHEREAS, in order to finance the purchase price of the Equipment, the Railroad will issue to the Secured Party promissory notes substantially in the form of Annex A hereto (hereinafter called the Notes) pursuant to the terms hereof and of the Finance Agreement dated as of the date hereof (hereinafter called the Finance Agreement) between the parties hereto; and

WHEREAS the interests of the Railroad in the Equipment are to be granted to and retained by the Secured Party as security for the obligations of the Railroad hereunder and under the Notes.

NOW, THEREFORE, in consideration of the premises and of the mutual covenants herein contained, the parties hereto hereby agree as follows:

Security Agreement

ARTICLE ONE SECURITY

SECTION 1.1. Grant of Security Interest. As security for the due and punctual payment of the principal of and premium, if any, and interest on the Notes and the performance and observance by the Railroad of all its agreements, obligations and covenants contained in this agreement and in the Finance Agreement, the Railroad hereby grants to the Secured Party a mortgage on and security interest in all of the Railroad's right, title, and interest in and to the Equipment, the bills of sale and the manufacturer's warranties in respect of the Equipment, all improvements and additions now or hereafter made or affixed thereto, and all cash or non-cash proceeds therefrom (all of the foregoing granted hereby being hereinafter called the Collateral).

Such security interest shall attach upon the execution by the Secured Party of this agreement and the Finance Agreement.

The Railroad represents and warrants that, upon recordation of this agreement with the Interstate Commerce Commission pursuant to section 11303 of the Transportation Code of the United States, the security interest created hereby shall be valid and effective against, and superior to, the interest of any other party in and to the Collateral.

SECTION 1.2. Release of Security Interest. After all payments due and to become due hereunder and under the Notes shall have been made and the Railroad shall have performed all of its obligations hereunder, the mortgage, security interest, and all other rights in the Collateral granted by this agreement shall cease and become null and void and all of the property, rights and interests granted and assigned as security for the Notes shall revert to and revest in the Railroad without any other act or formality whatsoever.

When the Railroad has fully performed and observed its covenants and obligations contained in this agreement, the Secured Party shall execute and deliver to the Railroad such termination statements, releases or other instruments as shall be prepared and furnished by the Railroad and shall be necessary and appropriate to evidence the satisfaction and discharge of this agreement and the security interests hereby created.

SECTION 1.3. Further Assurances. The Railroad from time to time shall do all such acts and execute all such instruments of further assurance as shall be reasonably requested by the Secured

Security Agreement

Party for the purpose of fully carrying out and effectuating this agreement and the intent hereof.

ARTICLE TWO NOTES

SECTION 2.1. Characteristics of Notes. Notes shall be in registered form and shall bear interest at such rate, be payable as to principal, premium, if any, and interest on such date or dates, and shall contain such other terms and provisions as shall be set forth herein and in the form set forth in Annex A hereto.

The principal of the Notes shall be payable in equal annual instalments on the anniversary of the first issue of Notes under the Finance Agreement, commencing on the first such anniversary, and ending on the twelfth such anniversary.

The Railroad shall not have the privilege of prepaying the Notes, except as set forth in section 2.2 hereof.

The unpaid principal amount of each Note shall bear interest at the rate of 9.24 per cent per annum. Such interest shall be payable semiannually, to the extent accrued, on the dates for the payment of principal and on the dates six months prior to each thereof. Interest shall be calculated on the basis of a 360-day year of twelve 30-day months, except that actual days elapsed shall be used for a partial month. Any amounts due under the Notes not paid when due shall bear interest for the period for which the same shall be overdue at the rate of 11.24 per cent per annum.

If the date for payment of principal of or interest on any Note is not a business day, then such payment shall be made on the next succeeding business day with the same effect as if made on the nominal payment date and no interest shall be paid in respect of such delay.

The principal of, premium, if any, and interest on each Note shall be payable to the holder thereof, without presentation thereof, at the registered address of such holder or as such holder shall direct in writing, in immediately available funds in such coin or currency of the United States of America as at the time of payment shall be legal tender for the payment of public and private debts.

The Notes (i) shall be dated as of the date of issue, or if issued in exchange for or upon the transfer of another Note or Notes bearing unpaid interest from an earlier date, dated as of

Security Agreement

such earlier date; (ii) shall entitle the holders to interest and instalments of principal from the date thereof; and (iii) shall be exchangeable for an equal aggregate principal amount of Notes of like tenor.

All Notes shall rank on a parity with each other Note and shall as to each other be secured equally and ratably by the Collateral and this agreement, without preference, priority or distinction of any thereof over any other by reason of difference in time of issuance or otherwise.

SECTION 2.2. Prepayment. If any unit of the Equipment shall suffer a Casualty Occurrence (as defined in section 4.3 hereof), the Railroad shall prepay the Notes in whole or in part on the next date for the payment of interest thereon, at 100% of the principal amount required to be prepaid by section 4.3 hereof, with interest thereon to the date such payment is made. Any partial prepayment shall be applied to instalments of principal thereafter falling due in inverse order of maturity.

On or after the fourth anniversary of the first date Notes are issued under the Finance Agreement, the Railroad may, by 30 days notice to the holders of the Notes, prepay the Notes, in whole or in part (any partial payment being applied to instalments of principal in inverse order of maturity), for an amount equal to

(a) the higher of (i) 100% of the instalments of principal amount of the Notes then being prepaid, and (ii) the then present value of the instalments of principal then being prepaid and interest thereon, discounted using an annual discount rate equal to 0.50% plus the yield to maturity of obligations of the United States Treasury having a maturity date corresponding with the average life of instalments of principal being prepaid, plus

(b) accrued and unpaid interest on the principal amount being prepaid.

Any amounts prepaid under this section 2.2 shall be distributed to the registered holders of such Notes being prepaid on such date ratably, without priority of one over the other.

SECTION 2.3. Register, Transfer, and Exchange of Notes. The Railroad shall maintain a register for the purpose of registration, and registration of transfer and exchange, of Notes, in which shall be entered the names and addresses of the holders of such Notes and particulars of the Notes held by them,

Security Agreement

respectively.

The Railroad may deem and treat the registered holder of any Note as the absolute owner of such Note for the purpose of receiving payment of all amounts payable with respect to such Note and for all other purposes.

A holder of any Note intending to transfer or exchange any Note may present such Note to the Railroad, together with the written request of such registered holder, for the issuance of a new Note or Notes, specifying the denomination or denominations of the same and the name and address of the transferee. Promptly upon such presentation, the Railroad shall execute, authenticate and deliver such new Note or Notes, in the principal amount equal to the unpaid principal amount or amounts of such Note or Notes so surrendered, having the same terms as the Notes so surrendered, in such denomination or denominations and registered in the name or names of the transferee specified in the written request.

If any Note shall be destroyed, mutilated, lost, or stolen, the Railroad shall, upon the written request of the registered holder of such Note, execute and deliver in replacement thereof a new Note, payable in the same original principal amount and dated the same date as the Note so destroyed, mutilated, lost, or stolen. The Railroad may make a notation on each new Note of the amount of all payments of principal, interest, and premium, if any, theretofore made, or the date to which such payments have been made, on the Note so destroyed, mutilated, lost or stolen. If the Note being replaced has been mutilated, such Note shall be delivered to the Railroad and shall be cancelled by it. If the Note being replaced has been destroyed, lost or stolen, the registered holder of such Note shall furnish to the Railroad such indemnity agreement or bond as shall be satisfactory to it together with evidence satisfactory to the Railroad of the destruction, loss or theft of such Note and of the ownership thereof. If the registered holder of such destroyed, lost, or stolen Note is the Secured Party, any affiliate of the Secured Party, or an institutional investor having a net worth of at least \$50,000,000, the written statement of such party shall be sufficient proof of such destruction, loss or theft and an indemnity agreement of such party signed by a duly authorized officer thereof delivered to the Railroad shall be sufficient security and indemnity.

Security Agreement

ARTICLE THREE THE EQUIPMENT

SECTION 3.1. Maintenance. The Railroad shall keep and maintain the Equipment in the same condition as when delivered hereunder, ordinary wear and tear excepted.

SECTION 3.2. Inspection. The Secured Party shall have the right, by its agents, to inspect the Equipment and the records of the Railroad pertaining to the Equipment at any reasonable time.

SECTION 3.3. Compliance with Laws and Rules. The Railroad shall use and maintain the Equipment in compliance with all laws and government regulations, including the regulations of the Federal Railroad Administration, and standards of the Association of American Railroads or any successor organization applicable to the use and maintenance of the Equipment.

SECTION 3.4. Hypothecation. The Railroad shall not, without the express written permission of the Secured Party, given or withheld at the sole discretion of the Secured Party, (a) sell, transfer, assign, or lease the Equipment or any unit thereof, or (b) otherwise part with possession or control of the Equipment or any part thereof except to railroad companies in connection with "run-through" or similar arrangements in the ordinary course of business, or to maintenance facilities for maintenance, repair, or overhaul.

SECTION 3.5. Accessions and Improvements. All replacement parts installed in maintaining the Equipment or improvements or modifications required for compliance with section 3.3 hereof will be considered accessions and will become subject to the security interest of this agreement. The Railroad may make improvements or additions to the Equipment if such improvement is separately identifiable, will not impair the originally intended function of the Equipment, and is readily removable without material damage to the Equipment to which it is attached; such improvement or addition, unless necessary for compliance with section 3.3 hereof, shall not be subject to such security interest. Any other improvement, addition, or modification shall be made only with the Secured Party's prior consent and shall become an accession, as aforesaid.

SECTION 3.6. Equipment Identification and Marking. The Railroad shall maintain on each side of each unit of the Equipment (a) the identification number set forth in Schedule A hereto for such unit, (b) the legend "Ownership Subject to a Security Interest Filed with the Interstate Commerce Commission," and (c) such other markings as from time to time may be required

Security Agreement

by law or deemed necessary by the Secured Party to protect the interest of the Secured Party in the Equipment.

The Railroad shall not change or permit to be changed the identification number of any unit of the Equipment unless and until a statement of new number or other amendment hereto shall have been prepared, executed, and recorded in every public place where this agreement has been recorded, all in accordance with section 3.8 hereof.

SECTION 3.7. Location of the Equipment. Unless the Secured Party shall otherwise agree, the Equipment shall not be used or assigned for use in service involving regular operation or maintenance outside of the United States of America.

SECTION 3.8. Recordation and Filing. This agreement or counterpart or copy hereof or evidence hereof may be filed or recorded in any public office as may be necessary or appropriate to protect the interest of the Secured Party herein or in the Equipment. The Railroad shall, at its own expense, file and record this agreement and any assignments hereof and amendments hereto with the Interstate Commerce Commission pursuant to section 11303 of the Transportation Code of the United States, and from time to time shall execute and file any other instruments requested by the Secured Party or any assignee of the Secured Party that are necessary or appropriate to protect and preserve such interests.

SECTION 3.9. Insurance. The Railroad shall maintain during the term of this agreement (a) all risk casualty insurance for each unit of the Equipment in amounts not less than the amounts payable on occurrence of a Casualty Occurrence as set forth in section 4.3 hereof, and (b) public liability insurance, in amounts and against risks customarily insured against by the Railroad on equipment similar to the Equipment owned or leased by the Railroad, but in no event in an amount less than \$50,000,000. The Railroad may self-insure against such risks, without any requirement for reserves, by deductible provisions of up to \$25,000 per occurrence in the case of casualty insurance, and \$5,000,000 per occurrence in the case of public liability insurance.

All policies of insurance carried to meet the requirements of this section shall (a) be with a carrier acceptable to the Secured Party, (b) name the Secured Party as additional insured and loss payee, as its interests may appear, and (c) provide for not less than ten-days' prior notice to the Secured Party in the event of cancellation, expiration, or material modification. The Railroad shall furnish appropriate evidence of such insurance

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prior to the delivery and acceptance of the Equipment covered thereby and annually thereafter.

SECTION 3.10. Certain Covenants Not to Survive. The covenants relating to use of the Equipment set forth in this Article Three shall not survive the full discharge of the obligation to pay the principal and interest on the Notes or, in the case of any unit of the Equipment, the discharge of such obligation in respect of such unit pursuant to the provisions of section 4.3 hereof.

SECTION 3.11. Encumbrances. The Railroad shall not create or permit to exist any claims, liens, security interests, or other encumbrances of any nature upon or against the Equipment (except pursuant to any assignment of this agreement by the Secured Party), and the Railroad shall take such action at its own expense as may be necessary to duly discharge any such encumbrance.

ARTICLE FOUR LOSS OR DESTRUCTION

SECTION 4.1. Risk of Loss. The Railroad bears the entire risk of loss of or damage to the Equipment.

SECTION 4.2. Insurance, Settlements and Other Proceeds. So long as any amount remains unpaid on the Notes, all net proceeds of and recoveries from insurance, settlements from railroad companies in respect of damage to the Equipment, payments and compensation from taking or requisitioning authorities, sale or disposition of wrecked or damaged units of the Equipment, or similar payments from other parties in respect of loss of or damage to any unit of Equipment, whether received by the Secured Party or the Railroad, and whether or not such loss or damage shall be regarded as a Casualty Occurrence under the next section, shall be paid to the Secured Party and applied against the liability of the Railroad for payments in respect of such Casualty Occurrence with respect to such unit, except the following, which shall be paid to the Railroad unless an Event of Default (as defined in section 6.1 hereof) or event that, with the passage of time or the giving of notice or both, would constitute an Event of Default, shall have occurred and shall be continuing:

- (a) such proceeds as are in the nature of damages or compensation for the Railroad's business interruption, loss of profits, consequential or incidental damages, or any other claim not based upon a Casualty

Security Agreement

Occurrence;

(b) such proceeds as are attributable to damage to any unit of Equipment not constituting a Casualty Occurrence, upon proof satisfactory to the Secured Party that such damage shall have been fully repaired; and

(c) such proceeds as are attributable to a Casualty Occurrence with respect to any unit of Equipment, if the amount payable in respect of such Casualty Occurrence pursuant to section 4.3 hereof shall have been fully paid.

SECTION 4.3. Casualty Occurrence. If the Equipment or any unit thereof shall be or become worn out, lost, stolen, destroyed, rendered permanently unfit for the intended use, or irreparably damaged, from any cause whatsoever, returned to the manufacturer pursuant to any patent indemnity or warranty settlement, or taken or requisitioned by condemnation or otherwise by any government agency resulting in loss of possession by the Railroad for a period of 90 consecutive days (any such occurrence being herein called a Casualty Occurrence), prior to the full payment of the principal and interest on the Notes, the Railroad shall promptly and fully notify the Secured Party with respect thereto.

On the date for the payment of principal or interest on the Notes next succeeding such notice (unless such date occurs within 30 days of such Casualty Occurrence, in which case within 30 days of such Casualty Occurrence) the Railroad shall prepay the Notes in an amount equal to (a) the unpaid principal amount of the Notes multiplied by a fraction, the numerator of which shall be the aggregate amount of the original Cost (as determined in accordance with the Finance Agreement) of the unit of the Equipment that shall have suffered a Casualty Occurrence and the denominator of which shall be the aggregate amount of such Cost of all Equipment subject hereto immediately prior to such date, and (b) accrued and unpaid interest, at the rate set forth in the Notes for regular and punctual payment, on the amount determined in accordance with clause (a) to the date of such payment.

Upon the making of such payment by the Railroad in respect of any unit, the interest of the Secured Party created by this agreement shall terminate with respect to such unit, and the Railroad shall be entitled to recover possession of such unit.

SECTION 4.4. Equipment Replacement. In lieu of the payment in respect of a Casualty Occurrence required by section 4.3, and

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within the time period required thereby, the railroad may subject to the security of this agreement a replacement locomotive, other than a work or passenger locomotive, of equal or lesser age and having the same value and utility as the unit of Equipment suffering a Casualty Occurrence, by

(a) preparing, executing, and delivering an amendment or supplement hereto, describing the substitute locomotive and providing for its subjection to the security interest of this agreement;

(b) recording the foregoing with the Interstate Commerce Commission pursuant to section 11303 of the Transportation Code of the United States, and

(c) delivering to the Secured Party a certificate of acceptance with respect to such replacement locomotive, a bill of sale of the vendor thereof, and an opinion of counsel with respect to such bill of sale and the aforesaid amendment and recording thereof, of the same scope and tenor as delivered in connection with the original delivery of Equipment hereunder and under the Finance Agreement.

Upon the completion of such delivery and recordation, such replacement locomotive shall be subject to this agreement as a unit of Equipment hereunder, and the security interest hereof shall terminate with respect to the unit so replaced.

ARTICLE FIVE COVENANTS

SECTION 5.1. Payment of the Notes. The Railroad shall duly and punctually pay the principal of, premium, if any, and interest on the Notes in accordance with the terms thereof and this agreement when such payments shall become due, including, but not limited to, prepayments in respect of Casualty Occurrences.

SECTION 5.2. General Indemnity. The Railroad shall indemnify and hold the Secured Party, any assignee of the Secured Party, the holders of the Notes, and their respective agents and employees harmless from and against any and all liabilities, losses, damages, injuries, penalties, claims, demands, actions, suits, costs, and expenses, including reasonable attorney's fees, and including but not limited to any of the foregoing arising out of or imposed by the doctrine of strict liability or any statute imposing liability on parties with an interest in property, or

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arising out of the ordering, purchase, acceptance, lease, possession, or operation of the Equipment by the Railroad or any other entity, the condition, return, or use of the Equipment, or by operation of law, except any of the foregoing as may arise due to the wilful misconduct or gross negligence of the party seeking indemnity. The wilful misconduct or gross negligence of any party indemnified hereunder shall not affect the rights of any other party entitled to indemnity. The Railroad agrees that upon written notice by any party entitled to indemnity hereunder of the assertion of any such liability, loss, damage, injury, penalty, claim, demand, action, or suit, the Railroad shall assume full responsibility for the defense thereof.

The Railroad shall be subrogated to the rights of any indemnified party in respect of the matter for which the indemnity has been given.

SECTION 5.3. Tax Indemnity. The Railroad shall pay and discharge and hold harmless the Secured Party, any assignee of the Secured Party, and the holders of the Notes from and against all assessments and all taxes (including without limitation all sales, use, rental, and property taxes) and similar charges of any nature whatsoever, together with any penalties, fines, or interest thereon that may now or hereafter be imposed upon the purchase, delivery, ownership, maintenance, possession, or use of the Equipment, or upon this agreement, the Notes, any assignment hereof, or the other documents contemplated hereby, or the payments or other amounts due or to become due hereunder or thereunder, excluding, however, all income, franchise, capital, or other taxes, on or measured by the net income of the Secured Party or the holders of the Notes, as the case may be.

The Railroad shall be under no obligation to pay any such taxes so long as it is contesting in good faith and by appropriate legal or administrative proceedings such taxes and the nonpayment thereof does not adversely affect the rights of the Secured Party or the holders of the Notes hereunder. The Railroad shall give the Secured Party notice of such contest within 30 days after institution thereof.

SECTION 5.4. Maintenance of Status as a Railroad. The Railroad will not take any action that would result in the loss by the Railroad of the status of a "railroad" as defined in section 101 of the Bankruptcy Code of the United States, it being the intention of the parties hereto that the Secured Party shall have the rights of a "secured party with a purchase-money equipment security interest" in the Equipment under section 1168 of said code.

Security Agreement

SECTION 5.5. Merger. So long as any amount under the Notes shall remain unpaid, the Railroad shall not consolidate with or merge into any other corporation or convey, transfer, assign, or lease substantially all of its assets to any entity, unless:

(a) such successor corporation or entity shall expressly assume the obligations of the Railroad hereunder and under the Finance Agreement;

(b) the protection of section 1168 of the Bankruptcy Code, or any successor statute providing protection for lessors and secured parties of equipment in railroad reorganization, shall continue to be available to the Secured Party in respect of the Equipment after such consolidation, merger, or transfer;

(c) all of the capital stock of such successor corporation or the ownership interests of such transferee entity shall be held by CSX Transportation Corporation, Consolidated Rail Corporation, or Pittsburgh and Lake Erie Railroad Company, or the successors of any of them; and

(d) after such consolidation, merger, or transfer, no Event of Default shall have occurred hereunder.

SECTION 5.6. Dividends. So long as any amount under the Notes shall remain unpaid, without the consent of the Secured Party the Railroad shall not pay or declare dividends in excess of the amount determined by subtracting (a) long-term debt payable in one year, other current liabilities and claims, increases in inventory, capital expenditures anticipated to occur in three months, and the minimum cash position for operation from (b) the amount by which cash and current receivables exceed current liabilities.

As used herein, the term "minimum cash position for operation" shall mean the aggregate of amounts necessary to pay wages, salaries, and other employee expenses and amounts necessary to pay obligations to vendors and suppliers and other obligations accrued and payable, in accordance with railroad industry custom, in each case falling due within 30 days, and such minimum cash position for operation shall not be less than \$1,600,000. All accounting terms used herein shall be interpreted in accordance with generally accepted accounting principles.

SECTION 5.7. Payment of Debt to Parent. So long as any amount under the Notes shall remain unpaid, the Railroad shall not make any payments of principal on the Railroad's indebtedness

Security Agreement

to the shareholders of the railroad, without the consent of the Secured Party, which shall not be unreasonably withheld.

SECTION 5.8. Reports. So long as any amount under the Notes shall remain unpaid, the Railroad shall furnish to any holder of Notes that shall so request and to the Secured Party:

(a) within 120 days after the close of each fiscal year of the Railroad occurring after the date hereof, an audited balance sheet and statement of changes in the financial position of the Railroad at and as of the end of such fiscal year, together with an audited statement of income of the Railroad for such fiscal year;

(b) within 45 days after the close of each of the first three quarters of each fiscal year of the Railroad, an unaudited balance sheet and statement of changes in financial position of the Railroad at and as of the end of such quarter, together with an unaudited statement of income of the Railroad for such quarter;

(c) simultaneously with the mailing thereof to its stockholders, or to the stockholders of its parent corporation, copies of all such financial statements, reports, notices, or proxy statements as the Railroad or its parent corporation shall mail to its stockholders;

(d) promptly upon their availability, all regular and periodic reports of the Railroad to the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, as amended, or any successor statute, and all regular and periodic financial reports to the Interstate Commerce Commission;

(e) within the period set forth in (a) above, a certificate of an officer of the Railroad (i) setting forth the identifying numbers of each unit of the Equipment then subject to this agreement, (ii) identifying those units of the Equipment that have suffered a Casualty Occurrence (as defined in section 4.3 hereof) since the date of the last such certificate, (iii) identifying those units of the Equipment that have been withdrawn from use pending repairs or otherwise, and (iv) stating that such officer has reviewed the activities of the Railroad and that, to the best of such officer's knowledge, there exists no Event of Default (as defined in section 6.1 hereof) or event that, with the passage of time or the

Security Agreement

giving of notice or both, would become such an Event of Default; and

(f) from time to time, such other information regarding the Equipment or this agreement as the Secured Party shall reasonably request.

SECTION 5.9. Inspections. So long as any amount under the Notes shall remain unpaid, the Railroad shall permit the Secured Party and any holder of Notes to visit the properties and the executive offices of the Railroad, inspect the financial records of the Railroad, and discuss the business and affairs of the Railroad with appropriate officers.

SECTION 5.10. Notice of Default. The Railroad shall promptly notify the Secured Party of the occurrence of any Event of Default (as defined in section 6.1 hereof) or any event that, with the passage of time or the giving of notice or both would become an Event of Default, of which the Railroad shall have knowledge.

ARTICLE SIX EVENTS OF DEFAULT; REMEDIES

SECTION 6.1. Events of Default. If any of the following events (each such event being herein sometimes called an Event of Default) shall have occurred (whatever the reason for such Event of Default and whether it shall be voluntary or involuntary):

(a) any payment of principal of or interest on the Notes, including prepayments required by section 2.2 hereof, shall not be paid when due, and such default shall continue for more than five days thereafter; or

(b) the Railroad shall fail to observe or perform any covenant or agreement on its part made in this agreement or the Finance Agreement, and such breach or failure shall continue for a period of 30 days after notice thereof shall have been given to the Railroad by the Secured Party or the Railroad shall otherwise have knowledge thereof; or

(c) any representation or warranty made or given by the Railroad herein or in the Finance Agreement or in any document, certificate or instrument furnished in connection herewith or therewith shall have been inaccurate in any material respect; or

Security Agreement

(d) the Railroad shall dispose of the Collateral or any part thereof contrary to the terms hereof or shall suffer or permit the imposition upon the Collateral or any part thereof of any lien that is prior to or on a parity with the interest of the Secured Party hereunder; or

(e) all of the capital stock of the Railroad shall not be owned by CSX Transportation Corporation, Consolidated Rail Corporation, or Pittsburgh and Lake Erie Railroad Company, or the successor of any of them;

(f) the Railroad shall (1) be generally not paying its debts as they become due, (2) file, or consent to the filing against it of a petition for relief under any bankruptcy or insolvency laws, (3) make an assignment for the benefit of creditors, (4) consent to the appointment of a receiver, liquidator, assignee, custodian, trustee, sequestrator, or other official with similar powers over the Railroad or a substantial part of its property, or (5) take corporate action for the purpose of any of the foregoing; or

(g) a court having jurisdiction over the Railroad or its property shall enter a decree or order in respect of the Railroad or such property in an involuntary case under any bankruptcy or insolvency law, or shall appoint a receiver, liquidator, assignee, custodian, trustee, sequestrator, or official with similar powers over the Railroad or a substantial part of such property, or shall order the winding-up or liquidation of the affairs of the Railroad, and such order or decree shall continue in effect for a period of 60 consecutive days; or

(h) the Railroad shall be in default under any material obligation for the payment of borrowed money, the deferred purchase price of property, or rent under any lease of real or personal property, or the Railroad shall fail to perform any obligation under any thereof, if the effect of such default or failure is to permit any party to such obligation to cause such indebtedness or obligation to become due prior to its stated maturity or its regularly scheduled dates of payment; or

(i) a final judgment for the payment of money in excess of \$250,000, or final judgments in excess of \$1,000,000 in the aggregate, shall be rendered against the

Security Agreement

Railroad and shall remain unsatisfied or unstayed for a period of 90 days;

then and in every such case the Secured Party may by notice to the Railroad declare the unpaid principal amount of the Notes with accrued interest thereon to be due and payable. Thereupon the entire amount of such principal and accrued interest, and the entire amount due hereunder shall become due and payable immediately without further demand, together with interest at the rate set forth in section 2.1 for overdue payments, to the extent legally enforceable, on any portion thereof overdue.

The Secured Party shall be entitled and empowered to institute any action or proceedings at law or in equity for the collection of any amounts due and unpaid, and may prosecute any such action or proceedings to judgment or final decree, and may enforce any such judgment or final decree against the Railroad and collect in the manner provided by law out of the Collateral, wherever situated, the moneys adjudged or decreed to be payable.

SECTION 6.2. Specific Remedies. Upon the occurrence and during the continuance of an Event of Default the Secured Party may exercise any or all of the following remedies:

(a) the Secured Party may recover possession of the Collateral, and if the Secured Party shall so request, the Railroad shall deliver the Collateral to the Secured Party as more fully set forth in section 6.4 hereof.

(b) The Secured Party may collect and receive any and all rents, revenues and other cash and non-cash proceeds from the Collateral.

(c) The Secured Party may with or without retaking possession sell all or any part of the Collateral, free from any and all claims of the Railroad, in one lot and as an entirety or in separate lots, at public or private sale, for cash or upon credit, in its discretion. Upon any such public sale, the Secured Party itself, the Railroad, or any holder of Notes may bid for the property offered for sale or any part thereof. Any such sale may be held or conducted at such place and at such time as the Secured Party may specify, or as may be required by law, and without gathering at the place of sale the Collateral to be sold, and in general in such commercially reasonable manner as the Secured Party may determine.

Security Agreement

If, prior to a sale of the Collateral or the making of a contract therefor, or within 30 days after the Secured Party shall have notified the Railroad of its intention to take possession of or sell or retain the Collateral, the Railroad shall tender full payment of the total unpaid principal of all the Notes then outstanding, together with interest thereon accrued and unpaid and all other amounts due under this agreement as well as all proper expenses of the Secured Party incurred in enforcing this agreement and taking possession of, storing, preparing the Collateral for, and otherwise arranging for, the sale of the Collateral, then in such event absolute right to the possession of, title to and property in the Collateral shall pass to and vest in the Railroad.

Upon such sale of the Collateral or the giving of notice by the Secured Party of its intention to retain possession thereof, the Railroad shall cease to have any rights in respect of the Collateral hereunder, but except as specifically provided herein all such rights shall be deemed thenceforth to have been waived and surrendered by the Railroad, and no payments theretofore made by the Railroad in respect of the Collateral or any of it shall give to the Railroad any legal or equitable interest or title in or to the Collateral or any of it or any cause or right of action at law or in equity in respect of the Collateral against the Secured Party or the holders of the outstanding Notes.

Such sale of the Collateral or any of it by the Secured Party shall not be a bar to the recovery by the Secured Party from the Railroad of payments then or thereafter due and payable, and the Railroad shall be and remain liable for the same until such sums shall have been received by the Secured Party as, with the proceeds of the sale of the Collateral, shall be sufficient for the discharge and payment in full of all the obligations of the Railroad hereunder (other than interest not then accrued), whether or not they shall have then matured.

SECTION 6.3. Application of Proceeds. If an Event of Default shall occur and be continuing and the Secured Party shall exercise any of the powers conferred upon it by sections 6.1 and 6.2 hereof, all payments made by the Railroad to the Secured Party hereunder after such Event of Default, and the proceeds of any judgment collected hereunder from the Railroad by the Secured Party, and the proceeds of every sale by the Secured Party of any of the Collateral, together with any other sums which may then be held by the Secured Party under any of the provisions hereof, shall be applied by the Secured Party to the payment in the following order of priority: (a) of all proper charges, expenses or advances made or incurred by the Secured Party in exercise of its remedies hereunder, (b) of the interest then due, with

Security Agreement

interest on overdue interest at the rate set forth in section 2.1 for overdue payments to the extent legally enforceable, and (c) of the principal of all the outstanding Notes, with interest thereon at such rate for overdue payments to the extent legally enforceable from the first date on which interest was due and not paid, whether such Notes shall have then matured by their terms or not.

If after applying all such sums of money realized by the Secured Party as aforesaid there shall remain any amount due to the Secured Party under the provisions hereof, the Railroad agrees to pay the amount of such deficit to the Secured Party. If after applying as aforesaid the sums of money realized by the Secured Party there shall remain a surplus in the possession of the Secured Party, such surplus shall be paid to the Railroad.

SECTION 6.4. Return of the Equipment. If the Secured Party shall request that the Equipment be returned as provided in section 6.2 hereof, the Railroad shall, at its own risk and expense:

(a) forthwith and in the usual manner (including, but not by way of limitation, giving prompt telegraphic and written notice to all railroads to which any unit or units of the Equipment have been interchanged or delivered in "run-through" service to return the unit or units so interchanged or delivered) recover possession of and place the Equipment on such storage tracks of the Railroad as the Secured Party reasonably may designate;

(b) permit the Secured Party to store the Equipment on such tracks until such units have been sold, leased or otherwise disposed of by the Secured Party; and

(c) transport the same to any connecting carrier for shipment, all as directed by the Secured Party.

The assembly, delivery, storage, and transportation of the Equipment as hereinbefore provided are of the essence of this agreement, and upon application to the court of equity having jurisdiction in the premises the Secured Party shall be entitled to a decree against the Railroad requiring specific performance of the covenants of the Railroad so to assemble, deliver, store, and transport the Equipment.

During any storage period, the Railroad shall, at its own cost and expense, maintain and keep the Equipment in good order and repair and shall permit the Secured Party or any person

Security Agreement

designated by it, including the authorized representative or representatives of any prospective purchaser of any unit of the Equipment, to inspect the same.

All amounts earned by or in respect of the Equipment after this agreement shall have been declared to be in default belong to the Secured Party and, if received by the Railroad, shall be promptly turned over to the Secured Party. If any unit of Equipment is not assembled, delivered, and stored, as hereinabove provided, or shall not be in the condition required by Article Three hereof, within 30 days after the same shall have been requested by the Secured Party, the Railroad shall, in addition to the other amounts payable hereunder, pay to the Secured Party for each day thereafter until such unit shall have been so delivered to storage or restored to the condition required hereby an amount equal to the then prevailing hire rate between railroad companies or between locomotive lessors or suppliers and railroad companies for the use of locomotives of the type, cost and age of the Equipment.

Without in any way limiting the obligation of the Railroad under the foregoing provision of this section, the Railroad hereby irrevocably appoints the Secured Party as the agent and attorney of the Railroad, with full power and authority, at any time while the Railroad is obliged to deliver possession of any unit of Equipment to the Secured Party, to demand and take possession of such unit in the name and on behalf of the Railroad from whomsoever shall be in possession of such unit.

SECTION 6.5. Rights and Remedies Cumulative; No Waiver. Each and every right, power and remedy herein specifically given to the Secured Party under this agreement shall be cumulative and shall be in addition to every other right, power and remedy herein specifically given or now or hereafter existing at law, in equity or by statute, and each and every right, power and remedy whether specifically herein given or otherwise existing may be exercised from time to time and as often and in such order as may be deemed expedient by the Secured Party, and the exercise or the beginning of the exercise of any power or remedy shall not be construed to be a waiver of the right to exercise at the same time or thereafter any other right, power or remedy. No delay or omission by the Secured Party in the exercise of any right, remedy or power or in the pursuance of any remedy shall impair any such right, power or remedy or be construed to be a waiver of any default on the part of the Railroad or the Railroad or to be an acquiescence therein. No waiver in respect of any Event of Default shall extend to any subsequent or other Event of Default.

SECTION 6.6. Restoration of Rights and Remedies. In case the

Security Agreement

Secured Party shall have proceeded to enforce any right, power or remedy under this agreement by foreclosure, entry or otherwise, and such proceedings shall have been discontinued or abandoned for any reason or shall have been determined adversely to the Secured Party, then and in every such case the Railroad and the Secured Party shall be restored to their former positions and rights hereunder with respect to the Collateral, and all rights, remedies, and powers of the Secured Party shall continue as if no such proceedings had been taken.

ARTICLE SEVEN MISCELLANEOUS

SECTION 7.1. Mailing of Notice. All communications and notices provided for herein shall be in writing and shall become effective when delivered or the next business day after being deposited in the United States mail, with proper postage for overnight mail prepaid, addressed:

(a) if to the Railroad, at
53 Market Street
Union Station Building
Brownsville, Pennsylvania 15417
Attention of Comptroller

(b) if to the Secured Party, at
Sun Life Executive Park
Wellesley Hills, Massachusetts 02181
Attention of Investment Department/
Private Placements SC 1303

or such other address which any party shall designate by notice to the other parties hereto.

SECTION 7.2. Indenture. If the Secured Party shall wish to transfer its interest in the Notes or any of them (in accordance with applicable federal and state laws and regulations thereunder) and shall deem it expedient to amend this agreement to incorporate trust indenture provisions in the usual form and to appoint a trustee to serve thereunder, then the Railroad shall enter into such an amendment if the obligations of the Railroad are not otherwise materially enlarged thereby. The Railroad shall pay the reasonable and customary fees and expenses of such trustee, and the expenses related to the preparation and execution of such indenture, including the reasonable fees and expenses of counsel for the Secured Party and for such trustee.

SECTION 7.3. Covenants to Survive. Except as specifically

Security Agreement

set forth herein, all covenants, agreements, indemnities, representations, and warranties contained in this agreement, or any document, agreement, or certificate delivered pursuant hereto shall survive the expiration or other termination of this agreement.

SECTION 7.4. Holders of Notes; Assignees of the Secured Party. All representations, warranties, covenants, and agreements contained herein shall be binding on, and shall inure to the benefit of, the holders of the Notes and any assignee of the Secured Party. Any request, notice, direction, consent, waiver, or other instrument or action of the Secured Party shall bind the successors and assigns of the Secured Party and such holders.

SECTION 7.5. Amendments and Waivers. The terms of this agreement shall not be waived, altered, modified, amended, supplemented, or terminated in any manner whatsoever except by written instrument signed by the Railroad and the Secured Party and consented to by the holders of two-thirds in principal amount of all outstanding Notes not held by the Railroad or its affiliate; provided, however, that no amendment, modification or waiver affecting amounts paid or to be paid or the date of such payment under the Notes, or of any provision of this section 7.5, shall be effective without the consent of all holders of Notes not held by the Railroad or its affiliates.

SECTION 7.6. Entire Agreement. This agreement and the other agreements and documents referred to herein constitute the final and entire expression of the agreement of the parties with respect to the matters contemplated hereby.

SECTION 7.7. Law Governing. This agreement has been delivered in, and shall be governed by, and construed in accordance with, the law of the Commonwealth of Pennsylvania, but the Secured Party shall have all rights and benefits available under section 11303 of the Transportation Code of the United States.

SECTION 7.8. Recourse. This agreement is solely a corporate obligation and no recourse shall be had in respect of any obligation, covenant, or agreement of this agreement, or referred to herein, against any stockholder, incorporator, director, or officer, as such, past, present, and future, of the parties hereto by the enforcement of any assessment or by any legal or equitable proceeding, by virtue of statute or otherwise.

SECTION 7.9. Invalidity of Provisions. Any provision of this agreement which may be prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to

Security Agreement

the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

SECTION 7.10. Counterparts. This agreement may be executed in any number of counterparts and by the different parties hereto on separate counterparts, all of which together shall constitute a single agreement.

SECTION 7.11. Effectiveness. Although this agreement is dated as of the date first above written for convenience, the actual dates of execution hereof by the parties hereto are respectively the dates set forth in the notaries' acknowledgments thereof, and this agreement shall be effective on the latest of such dates.

IN WITNESS WHEREOF the parties hereto have each caused this agreement to be duly executed by their respective officers thereunto duly authorized.

THE MONONGAHELA RAILWAY COMPANY

by
President

SUN LIFE ASSURANCE COMPANY
OF CANADA (U.S.)

by
D. E. VANCE
VICE PRESIDENT, INVESTMENTS

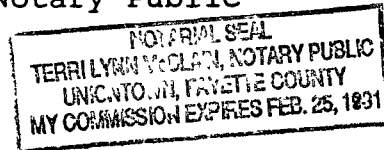
Security Agreement

COMMONWEALTH OF PENNSYLVANIA)

COUNTY OF *Fayette*) SS.:

On this *22nd* day of December, 1989, before me personally appeared Paul Reistrup, to me personally known, who, by me being duly sworn, says that he is the President of The Monongahela Railway Company, and that the foregoing instrument was signed on behalf of said company by authority of its board of directors, and he acknowledged that the execution of the foregoing instrument was the free act and deed of said company.

Terrilyn McClain
Notary Public



My commission expires

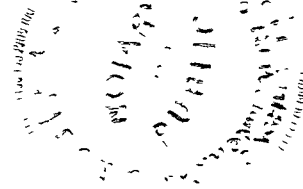
COMMONWEALTH OF MASSACHUSETTS)

COUNTY OF SUFFOLK) SS.:

On this *27th* day of December, 1989, before me personally appeared *D.B. Wray*, to me personally known, who, by me being duly sworn, says that he is a Vice President of Sun Life Assurance Company of Canada (U.S.), and that the foregoing instrument was signed on behalf of said corporation by authority of its board of directors, and he acknowledged that the execution of the foregoing instrument was the free act and deed of said corporation.

.....*Robin L. Forman*.....
Notary Public

My commission expires *July 22, 1994*



Security Agreement

SCHEDULE A

11 diesel electric locomotives, General Electric model Super 7 B23, the manufacturer's serial numbers and the road numbers of The Monongahela Railway Company set forth below:

<u>Road Number</u>	<u>Serial Number</u>
2300	38400
2301	38401
2302	38398
2303	38404
2304	38399
2305	38410
2306	38397
2307	38408
2308	38406
2309	38407
2310	38411

Security Agreement

ANNEX A

No.

\$

THE MONONGAHELA RAILWAY COMPANY
9.24% PROMISSORY NOTE DUE 2001

THE MONONGAHELA RAILWAY COMPANY, a Pennsylvania and West Virginia corporation (hereinafter called the Railroad) hereby promises to pay to

the principal amount of

in instalments as hereinafter provided, and interest on the unpaid principal balance thereof at a rate per annum equal to 9.24% from the date of this note to the date payment in full of the principal amount of this note is made. Principal payments shall be made in equal annual instalments on the day of in each year commencing, 1990, and ending, 2001. Interest on the unpaid principal amount hereof shall be paid on and in each year, commencing on, 1989.

Interest payable on this note shall be calculated on the basis of a 360-day year of twelve 30-day months, except that actual days elapsed shall be used for partial months.

This note shall bear interest, on any amount not paid when due for any period during which the same shall be overdue, at a the rate of 11.24%.

Principal, premium, if any, and interest shall be payable in immediately available funds at the registered address of the holder hereof, or at such address as the registered holder hereof shall direct by written notice to the Railroad.

This note has been issued under and pursuant to the Chattel Mortgage and Security Agreement dated as of December 1, 1989 (hereinafter called the Security Agreement), between the Railroad and Sun Life Assurance Company of Canada (U.S.) (hereinafter called the Secured Party). Reference is hereby made to the Security Agreement for a statement of the rights of the holders of, and the nature and extent of the security for, this note.

This note is not subject to prepayment except upon the occurrence of certain events as provided in Article Two of the Security Agreement.

Security Agreement

In case an Event of Default under the Security Agreement (as defined in the Security Agreement) shall occur and be continuing, the unpaid principal of this note together with accrued interest hereon and the costs of collection, including reasonable attorney's fees, may become or be declared due and payable in the manner, with the effect and subject to the conditions, provided in the Security Agreement.

To the extent permitted by applicable law, the Railroad waives notice, presentment, and demand.

IN WITNESS WHEREOF, the Railroad has caused this note to be duly executed by one of its officers thereunto duly authorized, as of the date hereof.

Dated:

THE MONONGAHELA RAILWAY COMPANY

by 

President